

MONTHLY ECONOMIC REPORT

March 2019

Good Performance in Mexican Stock Markets in March

On Friday, March 29th, the spot exchange rate closed at 19.41 pesos per dollar, which represents a monthly depreciation of 0.63% given Standard & Poor's negative outlook on the sovereign debt rating of Mexico and Pemex, as well as the U.S. dollar's strength. Noteworthy, the Mexican peso appreciated 1.26% in the first quarter of the year and has shown resilience compared to other currencies. The dollar index —which includes the main currencies in the world— stood at 97.26, one of its highest levels since mid-December. In March, the Brazilian real, the South African Rand, and the Canadian dollar depreciated against the U.S. dollar by 4.09%, 2.53%, and 1.42% respectively. In Europe, the British pound and the euro had a monthly depreciation against the U.S. dollar of 1.78% and 1.35% respectively.

Noteworthy factors that have favored the Mexican peso:

- Mexican exports to the United States (29,055 million dollars) exceeded imports (21,827 million dollars) by 7,228 million dollars in January. The trade between both countries adds up to 50,882 million dollars; which is higher than China and Canada's total trade with the United States (48,281.0 million dollars and 47,406.0 million dollars respectively).
- The Mexican Crude Oil Mix closed at 61.28 dollars per barrel in March one of its highest levels since November and \$5 US dollars above the price considered in the federal budget; which resulted from OPEC (Organization of the Petroleum Exporting Countries) supply cuts and U.S. sanctions against Iran and Venezuela.

On March 28th, the Central Bank (BANXICO) decided to maintain its reference rate at 8.25%, a 575 basis points spread against the main reference rate of the Federal Reserve of the United States (FED) —which ranges from 2.25% to 2.50%—. The spread between both rates has been high enough to attract portfolio investments in recent months. As of March 20th, the position of foreigners in debt instruments amounts to 2.22 billion pesos; 4.4% more compared to December. This allows flexibility to the Central Bank's monetary policy.

Stock indexes in the United States were positive in March. The Dow Jones, S&P 500 and Nasdaq had monthly gains of 0.17%, 1.94%, and 2.70% respectively and 11.81%, 13.65% and 16.81% in the first quarter of the year. On March 28th a new round of negotiations between China and the United States begun in Beijing; which will be followed by more talks in Washington in early April.

European stock markets also had gains in March (FTSE100 + 3.29%, CAC 40 +2.31%, SMI + 2.14%, FTSE MIB 3.04%, DAX 0.09%) even though the British parliament rejected Prime Minister, Theresa May's, Brexit deal for the third time. Donald Tusk, president of the European Council, decided to call a European Council on April 10 to discuss Britain's departure from the bloc; 48 hours before the deadline for a hard exit.

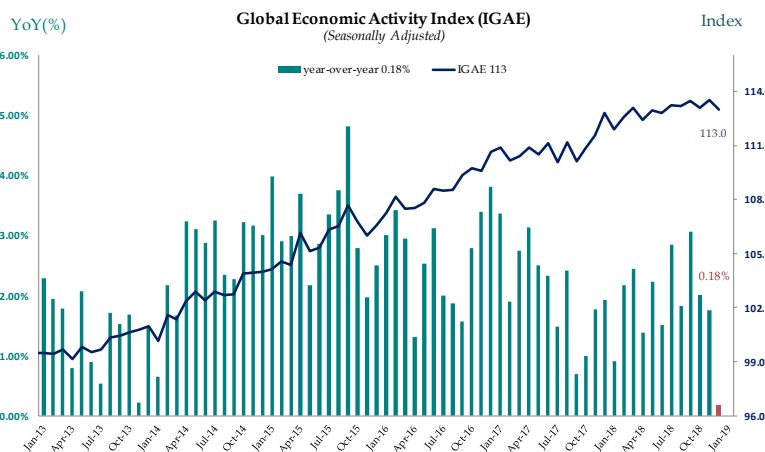
The good performance in international financial markets supported Mexican stock markets. Mexbol Index closed at 43,281 at the end of March representing a monthly return of 1.17% and year-to-date gains of 4.23%. Despite this, Banxico highlighted two risk factors for the Mexican economy: (i) Pemex and Mexico's negative credit rating perspective and (ii) the possibility that external factors could pressure the currency and result in higher prices. In this sense, the risk balance for growth maintains a downward bias while the risk balance for inflation maintains an upward bias.

The 10-year US Treasury bond yield fell 31 basis points to 2.41% in March and marks four consecutive sessions with an inverted yield curve; not seen since 2007 and shows a lower appetite for long-term instruments and the possibility of an economic slowdown.

Economic Indicators

Global Indicator of Economic Activity

The Global Indicator of Economic Activity ("IGAE") rose 1.2% year-over-year in January, following a 0.2% growth in the previous month; a significant recovery driven by increases in the primary (+3.0%) and tertiary activities (+2.3%). This was partially offset by a decline of (-) 1.1% in the secondary activity and marked the third consecutive month in which the sector shows annual falls (-0.8%, -2.4% and -1.1%).



Source: INEGI

Trade Balance

Mexico Trade Balance surplus in February was 1,222 million dollars after the historically high deficit recorded in January (-4,809 million dollars). This surplus is a consequence of a decline in imports of intermediate goods compared to January.

Exports						
	2019 YTD	% of Total	Annual Change	Feb-19	% of Total	Annual Change
Total Exports	68,749	100.0%	4.5%	36,296	100%	3.5%
Oil	4,593	6.7%	-6.2%	2,566	7.1%	-0.7%
Crude Oil	4,024	5.9%	-5.6%	2,303	6.3%	0.8%
Others	568	0.8%	-10.3%	262	0.7%	-12.3%
Non-Oil	64,156	93.3%	5.3%	33,730	92.9%	3.8%
Agricultural	3,011	4.4%	-2.8%	1,496	4.1%	-1.0%
Mining	877	1.3%	-11.9%	515	1.4%	4.1%
Manufacturing	60,268	87.7%	6.1%	31,719	87.4%	4.0%
Automotive Industry	20,946	30.5%	4.2%	11,622	32.0%	1.7%
Others	39,322	57.2%	7.1%	20,097	55.4%	5.4%
Imports						
	2019 YTD	% of Total	Annual Change	Feb-19	% of Total	Annual Change
Total Imports	72,337	100%	4.4%	35,074	100%	2.7%
Oil	7,690	10.6%	-4.3%	3,559	10.1%	-12.3%
Non-Oil	64,647	89.4%	2.6%	31,515	89.9%	1.0%
Consumption Goods	6,686	9.2%	1.6%	3,217	9.2%	2.6%
Intermediate Goods	50,919	70.4%	6.4%	25,144	71.7%	5.9%
Capital Goods	7,042	9.7%	-0.1%	3,155	9.0%	-5.5%
Trade Balance						
	2019 YTD			Feb-19		Annual Change
Trade Balance	-3,588		2.8%	1,222		31.4%

Source: Mexico's Ministry of Economics
Amounts in Millions of Dollars

Oil production

PEMEX oil production fell (-) 9.32% in February. Annual average production amounts to 1,660 thousand barrels per day (tbpd); below the 1,847 (tbpd) that the General Criteria of Economic Policy estimates for 2019.

Eugenia Pichardo & Arnulfo Rodriguez
Equity Portfolio Manager & Macro and Debt Strategist

Investor Relations: igarcia@paminversion.com
(55) 5261 4600



MONTHLY ECONOMIC REPORT

March 2019.

Pichardo Asset Management, SA de CV
An Independent Investment Advisory Firm
www.paminversion.com.mx
Andres Bello 45, 22nd Floor,
Polanco, 11550 CDMX, México
Phone: + 52 (55) 52 61 46 00 /04/21/16

epichardo@paminversion.com
Equity Portfolio Manager

arodriguez@paminversion.com
Macro & Debt Strategist

destevez@paminversion.com
Co-Portfolio Manager
Financials Analyst

jelizalde@paminversion.com
Co-Portfolio Manager
Industrials Analyst

igarcia@paminversion.com
Consumption Analyst

mcastaneda@paminversion.com
Materials & Telecom Analyst

lcalzada@paminversion.com
Compliance

Definitions

PEMEX: *Petróleos Mexicanos, which translates to Mexican Petroleum, is the Mexican state-owned petroleum company, created in 1938 by nationalization or expropriation of all private, foreign, and domestic oil companies at that time. The Fund maintains 0.0% investment in the security, at the close of December 31, 2018. For a list of full securities please visit: http://www.mxefund.com/portfolio_holdings.html*

Depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system in which no official currency value is maintained.

OPEC: *The Organisation of the Petroleum Exporting Countries is an intergovernmental organization of 15 nations, founded in 1960 in Baghdad by the first five members (Iran, Iraq, Kuwait, Saudi Arabia and Venezuela), and headquartered since 1965 in Vienna, Austria.*

FED (Federal Reserve System) is the central bank system of the United States that includes the Board of Governors in Washington, D.C., and 12 independent regional Reserve banks.

Dow Jones is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. It is not possible to invest in an index.

S&P 500 is a basket of 500 of the largest U.S. stocks, weighted by market capitalization. The index is widely considered to be the best indicator of how large U.S. stocks are performing on a day-to-day basis. It is not possible to invest in an index.

CAC 40 stands for Cotation Assistée en Continu, which translates to continuous assisted trading, and is used as a benchmark index for funds investing in the French stock market. It is not possible to invest in an index.

SMI (Swiss Market Index) stock index that represents the 20 principal values that are traded on the Swiss Stock Exchange.

FTSE MIB is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange, which superseded the MIB-30 in September 2004. The index consists of the 40 most-traded stock classes on the exchange. It is not possible to invest in an index.

Mexbol The S&P/BMV IPC seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. It is not possible to invest in an index.

IGAE: *The Global Economic Activity Index in Mexico is the short-term indicator for the Gross Domestic Product.*

Brexit the withdrawal of the United Kingdom from the European Union

The General Criteria of Economic Policy is the document in which the Mexican government states the expected economic perspectives that were considered for the conformation of the national income and expenditure budget.

NASDAQ: *The Nasdaq Composite Index is the market capitalization-weighted index of over 3,300 common equities listed on the Nasdaq stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests.*

DAX is a stock index that represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange. It is not possible to invest in an index.

Basis Points: unit of measure to describe percentage change or difference between two values. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

Disclosures

Closed-end funds are traded on the secondary market through one of the stock exchanges. The Fund's investment return and principal value will fluctuate so that an investor's shares may be worth more or less than the original cost. Shares of closed end funds may trade above (a premium) or below (a discount) the net asset value (NAV) of the fund's portfolio and there is no assurance that the fund will achieve its investment objective.

To read about The Mexico Equity and Income Fund, Inc, please access the Annual Report by calling (414) 765-4255 to receive a copy, or access the Annual Report on the Fund's website, "www.mxefund.com", under the section captioned investor reports. Investors should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. An investment in the Fund should not constitute a complete investment program.

Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index. Please call (414) 765-4255 for fund performance.

The information contained herein reflects the opinion of "Pichardo Asset Management" and as such should not be taken to be fundamental analysis or a decision-making model. Neither should the information be interpreted as a solicitation, offer or recommendation to buy or sell financial securities. It is also subject to changes without prior notification and estimates cannot be guaranteed, past performance does not guarantee future performance. The registry maintained by PAM as an Independent Advisor to the securities supervisory authorities, both in Mexico and the United States, do not imply their recognition and / or approval of the information contained in this document.